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SUBJECT: Georgia Bi-Weekly Update June 15

¶1. This cable contains current items of political, economic, and social interest concerning Georgia during the weeks of June 2-15.

Meeting of Georgian and Russian Presidents

¶2. Georgian President Saakashvili and Russian President Putin had a 50-minute meeting in St. Petersburg on June 9, which has produced considerable public commentary -- most of it favorable -- in Georgia. Following the meeting, Saakashvili was quoted as saying relations between the two countries should be not merely normal but "most friendly." The two presidents agreed to instruct their MFAs on joint work aimed at stabilizing bilateral relations. Georgian Foreign Minister Bezhuashvili commented that the meeting was "forthright, important and principled," and stressed that Georgia's Euro-Atlantic path could not be questioned. Parliament Speaker Burjanadze emphasized the importance of such face-to-face meetings given the two countries' complicated relations.

Minister's Gifts Confiscated in Azerbaijan

¶3. On June 9, Georgian Minister of Education Kakha Lomaia visited the ethnic Georgian village of Aliabed in Azerbaijan, where he met with schoolchildren, presented them with Georgian textbooks and literature, and spoke about a program to help them enroll in Georgian universities. According to reports covered extensively in Georgian media, local security forces barred many students from attending the meeting, and confiscated books from and even assaulted those who did attend. TV cameras captured images of children crying and Lomaia arguing with a local official. Lomaia himself has not made any official comment so far, but a Parliamentary committee intends to write a letter to Azerbaijani Parliament requesting an investigation of the incident. Georgian commentators have used the episode to criticize the government's friendly policy toward Azerbaijan, with one newspaper declaring that "apparently for Georgian authorities gas and other goodies from Baku are more important than the rights of their compatriots."

Repatriation of Meskhetian Turks?

¶4. On June 13, the parliamentary foreign affairs committee held a hearing of a draft law on repatriation of the Meskhetian Turks, deported from Georgia by Stalin in 1944. Georgia has an outstanding commitment to the Council of Europe, made in 1999, to complete repatriation by 2011. The Meskhetian Turks, who are now living in Russia and Central Asia, have long pushed to return to their homeland in Georgia, but this prospect has caused fear among ethnic Armenians in Georgia over potential land and property disputes, demographic shifts, and the emergence of a "Turkish" presence in their territory. Many ethnic Georgians are also resistant to repatriation. On June 13, parliamentary discussion of the issue grew into a noisy clash between majority and opposition MPs, with the latter arguing that resettlement in Georgia would distort the country's demographic balance and exacerbate social and ethnic problems (Note: The majority ethnic-Armenian population of Javakheti, origin of the Meskhetian Turks, does not want them to be

repatriated here. End note).

Working Group on "Products from the Conflict Zone"

15. In a June 4 meeting with international, NGO, and Georgian government representatives, the Parliamentary Commission on Territorial Integrity discussed plans for developing the "Product from the Conflict Zone" project, designed to encourage manufacturing in the South Ossetia conflict zone. This was the first meeting of the economic working group for the project, which will convene on a regular basis to hear reports of experts. The working group's conclusions and recommendations will be submitted to the Commission which in turn will work with the executive branch of government to implement them.

Another Wave of Tariff and Price Increases

16. One of Georgia's landline telephone operators -- United Telecom (UT) -- has doubled the tariff on local calls. Telephone calls will cost GEL 0.04 (roughly USD 0.02) instead of GEL 0.02 per minute starting June 1. There will be no charge for calls between two subscribers of the network, but because UT is only one part of the landline market the increase will be felt by most telecom customers. Separately, the Tbilisi Water Supply Company has announced a change in the way it will calculate water consumption costs, replacing a fixed rate with water meters, a change that analysts believe will result in higher bills. These increases affect a population already hit by increased gasoline prices, which have led to higher tariffs for public transportation.

Arab Investor Buys Sheraton

17. On June 8, the Sheraton Metechi Palace Hotel was sold at auction for USD 67.5 million to Rakeen Development, a company based in Ras Al Khaimah, United Arab Emirates. Rakeen beat out bidders from

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Georgia, Greece, Israel, India, and the UK. Rakeen is reportedly planning to invest USD 1.5 billion in Georgia, including in a potential free economic zone in Poti, and the company recently purchased land in Tabakhmela, near Tbilisi, to build a recreational project with a golf course. The Sheraton Metechi Palace was built in the late 1980s as a joint venture between the Tbilisi municipality (85 percent) and an Austrian investor (15 percent). The Georgian government assumed control in 1996 after the joint venture failed to repay its debt to an Austrian bank. In 2007, the Ministry of Finance initiated a bankruptcy procedure to sell the joint venture's property, the total debt of which had reached 103 million euros.

National Bank Diversifies Its Holdings

18. On May 31, 2007, the National Bank of Georgia (NBG) initiated its first-ever move toward diversification of foreign exchange assets into longer-term holdings, and this move was into the U.S. market. The NBG became an instrument of finance for the U.S. government and its budget deficit, with the NBG's foreign reserves now invested in U.S. Treasury securities. The NBG's foreign assets recently passed the USD 1 billion mark, a significant volume for a country of Georgia's size, and the U.S. Treasury Advisor is encouraging the NBG to improve income from these assets by expanding into the U.S. and other markets, including Euro-denominated securities of EU states. In the near future, the earnings from foreign exchange assets will be the primary source of the NBG's income.

Apostille Certification in Force

19. Starting May 14, 2007, Georgia is a party to the 1961 international convention that abolishes the requirement for "legalization of public documents" from one country for use in another country. Under the convention, foreign companies operating in Georgia will be able to use the simpler "Apostille Certificate" instead of going through the legalization procedure. This change will make it easier for foreign companies to register in Georgia, and will significantly shorten the time needed for U.S. exporters to collect documents required for participation in Georgian government

procurement tenders.

USDA Trade Mission to Georgia

¶10. The U.S. Department of Agriculture (USDA) sponsored a Trade and Investment Mission (TIM) to Georgia on June 11-15. The TIM's purpose was to promote trade and investment in various agriculture-related fields including, but not limited to, advanced plant genetics, processing equipment, cattle genetics, beverages and ready-to-eat products. The Tbilisi Business Service Center (TBSC) and the American Chamber of Commerce in Georgia organized one-on-one meetings and site visits for 11 American companies with Georgian companies in agribusiness sector, and presentations by top officials in the agricultural field.

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